

Annual Report to Congress on Foreign Economic Collection and Industrial Espionage: 1999



This report was prepared by the National Counterintelligence Center.

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 1999		2. REPORT TYPE N/A		3. DATES COVERED -	
4. TITLE AND SUBTITLE Annual Report to Congress on Foreign Economic Collection and Industrial Espionage: 1999				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Office of the National Counterintelligence Executive (ONCIX) CS5 Room 300 Washington, DC 20505				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release, distribution unlimited					
13. SUPPLEMENTARY NOTES The original document contains color images.					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT SAR	18. NUMBER OF PAGES 5	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Table of Contents

Are You A Target?	1
Targeting and Collection	1
Industrial Espionage	2
1999 Landmark Cases.....	2
The Year 2000 Problem.....	3
The Economic Espionage Act of 1996.....	3

Are You A Target?

As a result of the global shift toward economic and technological competition, some foreign countries are becoming increasingly engaged in economic and industrial espionage. **Foreign targeting of US technology and economic and proprietary information is a growing concern.** Economic and industrial espionage against the United States by foreign entities, both government-sponsored and private, threatens US economic competitiveness and results in the loss of millions of US dollars and thousands of jobs annually.

The United States continues to be the preeminent world power. It has vital economic interests and military responsibilities around the globe. The protection of trade secret information, critical technologies, and proprietary information is an integral part of US economic security. Due to the importance of maintaining US economic competitiveness, current policy is to treat foreign threats to the economic well-being of the United States as a national security issue. **As a result, economic security is directly linked to, and inseparable from, national security.**

Foreign countries, including some traditional allies, continue their attempts to collect information against US interests. While foreign efforts persist, the US Intelligence Community has detected no significant change from past patterns in both the nature and extent of the threat or in the type of technologies being targeted and collection methods employed. As in previous years, over a half dozen nations continue to be the most active collectors of US proprietary information and critical technologies. These nations gather information through both open and legal means as well as through clandestine efforts. They target industries, the US Government, and US persons in an effort to support their nations' economic and military priorities and to avoid the time and expense of advanced research and development.

Targeting and Collection

Military Force modernization, economic competition, and commercial modernization drive foreign collection efforts. As a result, dual-use technologies - those with civilian and military applications - are consistent targets of foreign collection.

Clandestine collection efforts continue; however, consistent with traditional espionage operations, a significant majority of foreign collection is initially conducted through legal and open means. This activity may be a precursor to economic espionage.

Practitioners of economic and industrial espionage seldom use one method of collection. Instead, they employ a number of collection techniques in a concerted effort

that combines legal and illegal, traditional and more innovative methods. Espionage and other illegal collection methods include agent recruitment, use of US volunteers and co-optees, surreptitious entry, theft, and computer intrusions. Legal collection methods include joint ventures, use of foreign students, scientific exchanges, Internet access, exploitation of cultural or ethnic affinity, mergers and acquisitions, visits to US facilities, and unsolicited requests for information.

Industrial Espionage

It is imperative that US companies have a well-rounded internal security system and corresponding policies to reduce the potential for loss of sensitive information. Nations that fear falling behind in technological expertise and efficiency may resort to theft as a way to level the playing field. In February 1999, the FBI and the US Chamber of Commerce announced that US companies lose about \$2 billion a month to corporate espionage.

About 95 percent of the losses go undetected or are suppressed by companies that do not want customers and shareholders to know of their vulnerabilities or fear they may be forced to reveal even more information in the discovery phase of a criminal action. Yet, unreported foreign economic espionage attempts or cases that are not prosecuted are likely to further embolden foreign adversaries.

1999 Landmark Cases

Avery Dennison Corporation

In April 1999, two Taiwan executives and a Taiwan company were convicted of theft of trade secrets under the Economic Espionage Act of 1996. Pin Yen Yan, president of Four Pillars Company, and his daughter Hwei Chen "Sally" Yang were accused of stealing Avery Dennison adhesive formulas and innovations with the help of an Avery Dennison employee. This case marks the first conviction of foreign individuals or a foreign company that has gone to trial under the Economic Espionage Act of 1996. The Yangs each face a maximum penalty of 10 years in prison and \$250,000 in fines. Four Pillars Company could be fined up to \$5 million.

Bristol-Myers Squibb

In April 1999, Hsu Kai-Lo, technical director of the Yuen Foong Paper Company of Taiwan, pleaded guilty to one count of conspiracy to acquire a trade secret. Hsu attempted to steal the formula for Taxol, a cancer drug patented and licensed by the Bristol-Myers Squibb Company. Another defendant, Jessica Chou, is believed to be in

Taiwan and is considered a fugitive by US authorities. Taiwan has no extradition treaty with the United States.

The Year 2000 Problem

The extensive Y2K remediation efforts currently underway in the United States also offer significant opportunities for some countries to target US Government and private sector information systems for the purpose of gaining access to critical technologies and sensitive commercial and proprietary information. Some foreign-manufactured software, or foreign experts hired to fix Y2K problems, could pose a threat to the security of sensitive information.

The Economic Espionage Act of 1996

While the Economic Espionage Act of 1996 provides severe sanctions, it is company responsibility to take reasonable measures to safeguard trade secret information. To report violations or to obtain additional information about the Act, please contact the local **FBI Awareness of National Security Issues and Response (ANSIR)** coordinator. Telephone numbers for FBI field offices are listed in most telephone directories and on the FBI home page: www.fbi.gov.